

**NORTHWEST CONSOLIDATED FIRE DISTRICT
JOHNSON COUNTY, KANSAS**

**Financial Statements for the
Year Ended December 31, 2012
and Independent Auditors' Report**

**NORTHWEST CONSOLIDATED FIRE DISTRICT
JOHNSON COUNTY, KANSAS**

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Northwest Consolidated Fire District
Johnson County, Kansas

We have audited the accompanying financial statements of Northwest Consolidated Fire District, Johnson County, Kansas (the "District"), which comprise the statement of net assets as of December 31, 2012, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide (KMAG). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The District has elected not to adopt the provisions of the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Consolidated Fire District as of December 31, 2012, and its statement of activities and changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Arundel & Co.

October 25, 2013

**NORTHWEST CONSOLIDATED FIRE DISTRICT
JOHNSON COUNTY, KANSAS**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2012**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 459,399
Prepaid insurance	<u>1,258</u>
Total current assets	460,657

DEFERRED COMPENSATION PLAN ASSETS 189,953

PROPERTY PLANT & EQUIPMENT, NET 683,639

DEBT ISSUE COSTS, NET 884

\$ 1,335,133

LIABILITIES

CURRENT LIABILITIES

Current portion of long-term debt	90,000
Accounts payable	5,575
Other accrued liabilities	<u>71,387</u>
Total current liabilities	166,962

DEFERRED COMPENSATION PLAN OBLIGATIONS 189,953

LONG-TERM DEBT, LESS CURRENT PORTION 95,000

Total liabilities 451,915

NET ASSETS

Unrestricted net assets 883,218

\$ 1,335,133

The accompanying notes are an integral part of these financial statements.

NORTHWEST CONSOLIDATED FIRE DISTRICT JOHNSON COUNTY, KS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2012

REVENUE AND SUPPORT

Intergovernmental	\$ 1,291,574
Fees	90,000
Other	5,405
	<u>1,386,979</u>

OPERATING EXPENSE

Depreciation and amortization	85,485
Personnel costs	996,441
Repairs and maintenance	52,378
Insurance	14,502
Utilities	35,599
Administrative and professional	40,897
Equipment and clothing	5,530
Transition expense	19,702
Miscellaneous	4,742
	<u>1,255,276</u>

EXCESS OPERATING REVENUE AND SUPPORT OVER OPERATING EXPENSE

131,703

OTHER INCOME (EXPENSE)

Gain on sale of fixed asset	15,000
Interest income	1,762
Interest expense	(8,228)
	<u>8,534</u>

CHANGE IN NET ASSETS

140,237

NET ASSETS, BEGINNING OF YEAR (See Note 10)

742,981

NET ASSETS, END OF YEAR

\$ 883,218

The accompanying notes are an integral part of these financial statements.

NORTHWEST CONSOLIDATED FIRE DISTRICT JOHNSON COUNTY, KANSAS

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 140,237
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization	85,485
Gain on sale of property	(15,000)
Changes in operating assets and liabilities:	
Prepaid insurance and other current assets	13,075
Accounts payable and accrued liabilities	<u>7,934</u>
Net cash provided by operating activities	<u>231,731</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, plant, and equipment	(39,548)
Proceeds from sale of property	<u>15,000</u>
Net cash used in investing activities	<u>(24,548)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payment on long-term debt	<u>(90,000)</u>
Net cash used in financing activities	<u>(90,000)</u>

NET CHANGE IN CASH 117,183

CASH, BEGINNING OF YEAR 342,216

CASH, END OF YEAR \$ 459,399

The accompanying notes are an integral part of these financial statements.

NORTHWEST CONSOLIDATED FIRE DISTRICT

JOHNSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Organization and Nature of Operations – The Northwest Consolidated Fire District (District) was established as a tax-exempt organization to provide fire protection and education to those residents and businesses located within the District. Effective January 1, 2010 the District, comprised of Johnson County Rural Fire District No. 3 and the City of Desoto, merged their operations. Upon the merger, Johnson County Rural Fire District No. 3 and City of DeSoto transferred all real and personal property into the District and terminated agreements for the employee benefit plans, including healthcare plans, deferred or defined benefits.
- b. Budgetary Information – Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:
 - Preparation of the budget for the succeeding calendar year, on or before August 1.
 - Publication in local newspaper of the proposed budget and notice of public hearing on the Budget, on or before August 5.
 - Public hearing, on or before August 15 but at least ten days after publication of notice of hearing.
 - Adoption of the final budget, on or before August 25.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the year ended December 31, 2012.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital project funds.

Spending in funds, which are not subject to the legal annual operating budget requirement, is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

- c. Cash and Cash Equivalents – The District considers highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.
- d. Property, Plant, and Equipment – Property, plant, and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using straight-line method over the estimated useful lives of the assets.
- e. Income Taxes – The District is exempt from federal and state income taxes. Uncertain tax provisions, if any, are recorded in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, Income Taxes, which require the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at December 31, 2012. The Districts' open examination periods are 2009 and forward.
- f. Use of Estimates – In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include, but are not limited to, estimates of the useful lives of property and equipment. Actual results could differ from those estimates.
- g. Debt Issue Costs – Costs related to the issuance of the District's debt have been capitalized and are being amortized on a straight-line basis over the term of the debt.
- h. Net Assets – To ensure observance of limitations and restrictions placed on the use of resources available to the District, net assets are delineated into two groups according to their nature and purpose as follows:
 - Unrestricted – The portion of expendable resources immediately available for the District's operations.
 - Temporarily restricted – Net assets subject to donor-imposed restrictions to their use that may be met by activities of the District or the passage of time. As of December 31, 2012, there are no temporarily restricted net assets.
 - Permanently restricted – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the District. As of December 31, 2012, there are no permanently restricted net assets.
- i. Subsequent Events – Management has evaluated subsequent events through October 25, 2013, the date which the financial statements were available for issue.

2. PROPERTY, PLANT, AND EQUIPMENT

The Districts' Property, Plant, and Equipment consisted of the following at December 31, 2012:

	<u>2012</u>
Land	\$ 28,508
Building	907,653
Trucks and autos	1,250,548
Equipment	346,595
Office furniture and equipment	<u>34,535</u>
	2,567,839
Less accumulated depreciation	<u>1,884,200</u>
	\$ <u>683,639</u>
 Depreciation expense	 \$ <u>84,777</u>

3. CASH AND INVESTMENTS

At December 31, 2012, the District's deposits were covered by federal depository insurance or by collateral held by the District's agent in the District's name. Cash and investments at December 31, 2012 are as follows:

Cash and cash equivalents:

	<u>2012</u>
First National Bank of Olathe - checking	\$ 36,056
First National Bank of Olathe - money market	<u>423,343</u>
	\$ <u>459,399</u>

4. DEFERRED COMPENSATION PLAN

Employees of the District may participate in a deferred compensation plan adopted under the provision of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to all employees of the District. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amounts held by the financial institution until paid or made available to the employees or beneficiaries are the property of the District subject only to the claims of the District's general creditors. In addition, the participants in the plan have rights equal to those of the general creditors of the District, and each participant's rights are equal to his or her share of the fair

market value of the plan assets. The District believes that it is unlikely that plan assets will be needed to satisfy claims of general creditors that might arise.

As part of its fiduciary role, the District has an obligation of due care in selecting the third-party administrator.

5. CONTRACTS

The District entered into contracts with Sunflower Redevelopment, LLC to provide fire and emergency services for the Sunflower Army Ammunition Plant. The agreement was renewed for the period covering January 1, 2012 through December 31, 2012 for the amount of \$90,000. The District has renewed this contract for 2013.

6. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and the legal representatives of the District. There were no apparent statutory violations during the year ended December 31, 2012.

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, and injuries to employees. The District manages these various risks of loss through insurance policies through Dougan Insurance Group.

8. OTHER ACCRUED LIABILITIES

	<u>2012</u>
Accrued wages	\$ 39,910
Accrued interest	1,943
Accrued vacation	13,816
Accrued sick leave	14,950
Consumables fund payable	5
457 plan payable	763
	<u>\$ 71,387</u>

9. LONG-TERM DEBT

In March 2004, the District issued Fire Fighting Equipment Bonds, Series 2004, in the amount of \$800,000 (\$185,000 and \$275,000 outstanding at December 31, 2012) bearing interest at rates ranging from 2.75% to 3.40% with principal and interest due serially through September 1, 2014. The Bonds constitute valid and binding general obligations of the District, payable as to both principal and interest from ad valorem taxes which may be levied without limitations as to rate or amount upon all taxable tangible property, real and personal, within the territorial limits of the District. The proceeds were used to retire the Municipal Temporary Note, Series 2003-1, due on April 1, 2004.

Rollforward of long term debt for 2012:

	Beginning Balance	Advances	Payments	Ending Balance	Current Portion
Series 2004	\$ <u>275,000</u>	\$ <u>-</u>	\$ <u>90,000</u>	\$ <u>185,000</u>	\$ <u>90,000</u>

Maturities of the bonds payable subsequent December 31, 2012 are as follows:

	Principal	Interest	Total
2013	90,000	6,200	96,200
2014	<u>95,000</u>	<u>3,230</u>	<u>98,230</u>
	\$ 185,000	\$ <u>9,430</u>	\$ <u>194,430</u>
Less Current Portion	<u>90,000</u>		
	\$ <u>95,000</u>		

10. RESTATEMENT OF ACCRUED LIABILITIES

In 2012, the District changed its accounting for accrued vacation and compensated absences to more accurately reflect the District's human resource policies in effect at that time. This resulted in the following restatement of the 2011 financial statements:

	Accrued Liabilities	Ending Unrestricted Net Assets
December 31, 2011, balances as previously reported	\$ 36,570	\$ 771,218
Effect of change in accounting for accrued absences	<u>28,237</u>	<u>(28,237)</u>
Balances as restated	\$ <u>64,807</u>	\$ <u>742,981</u>

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